

**Michigan State Employee Retirees Association Council's  
Presentation to the  
House Judiciary Committee In Opposition to House Bill 4072**

Thank you, Mr. Chairman and Members of the Committee. My name is Robert Kopasz and I am Chairman of the Michigan State Employee Retirees Association Council, commonly known as the SERA Council. The State Employee Retirees Association (SERA) is a statewide organization made up of 21 Chapters and well over 10,000 members in this state and around the nation. SERA was organized for and dedicated to maintaining the economic well-being of all retired state employees and their beneficiaries. SERA is the only organization that advocates solely for all state retirees. Our goal is to maximize the purchasing power of our pensions and prevent them from being eroded by inflation and significant increases in the cost of our healthcare.

SERA has long sought enhancements to the pensions of retirees, especially those who have been retired for many years and whose pensions have been eroded by inflation. Pension adjustments were made in 1972, 1974, 1976, 1977, and 1987. It is interesting to note that the last time an adjustment was made to the pensions of retirees in order to overcome the impact of inflation was 22 years ago when Public Act 57 1987 took effect. This Act increased the pensions of those who retired prior to October 1, 1986, with individuals who had been retired the longest receiving the largest increases. Many of the retirees who benefited from that adjustment are now facing the same problem they faced then and have been joined by other retirees who are struggling to make ends meet. In 1983 eligible retirees began to share in a distribution of investment income earned in excess of 8% annually. This distribution, commonly known as the "Thirteenth Check" was phased out in the early nineties which resulted in a real loss of income for many pre-October 1, 1986 retirees. It should be noted that beginning October 1, 1988, a 3% non-compounding annual adjustment was made on pensions with the adjustment being capped at \$300 or \$25 per month. We have many members whose annual pensions do not approach \$10,000 which means they receive something less than the \$25 maximum. SERA's efforts to obtain adjustments to the pensions of long-retired state employees have been unsuccessful because of an unsympathetic administration in the 1990s and the state's well established fiscal problems over the last several years. I mention these issues hopefully to permit the Committee members to better understand how your action will be perceived by many retirees already under financial strain.

Health benefits for state retirees are approved by Civil Service and are generally patterned after the benefits received by active employees through the collective bargaining process. However, it must be noted that employee unions do not bargain on behalf of retirees. The State Employees Retirement Act [MCL 38.20d] mandates health plan premiums for Defined Benefit Plan retirees be paid in the same proportion as for active employees. The newly negotiated contract sets active employees state paid premiums at 90%. SERA believes this is an equitable arrangement which eliminates the potential for unanticipated changes in retiree premium sharing.

A Memorandum of Understanding is authorized and executed between the Michigan Civil Service Commission and the Department of Management and Budget to reflect health benefit changes in the plan design. A copy of the most

recent Memorandum of Understanding (August 2008) is attached and identified as Attachment 1. Effective January 1, 2008 Medicare-eligible retirees are covered by the BC/BS Medicare Advantage Plan (Medicare Plus Blue Group). Non-Medicare retirees are enrolled in the State Health Plan PPO or one of the HMO's currently being offered. The plan design for the health plans are essentially the same. It is important to note that both the former State Health Plan PPO and new Medicare Advantage Plan have a preventative services component. We believe this is a very important aspect of the retiree health plan in that it reduces potential costs by early screening and detection and preventive measures such as immunizations.

Retirees have separate prescription, dental and vision plans. The prescription drug plan is a three-tier plan currently administered by Express Scripts. Currently retirees have a co-payment of \$10 for generic drugs, \$20 brand name and \$40 for brand name drugs not on the formulary. The three-tier formulary is established each year by the vendor that administers the drug plan. The co-payments of \$10/20/30 are doubled for a three month drug supply (\$20/40/80) via mail order. **Several meetings with the State (Civil Service, DMB and OSE) and SERA resulted in our obtaining a different drug co-pay structure for pre-1987 retirees (\$7/15/30 retail and \$14/30/60 for mail order).** Dental services are provided by Delta Dental. Vision services are provided through Blue Cross/Blue Shield.

SERA enjoys a unique relationship with the staff of the Civil Service Commission (formerly Department) and the Office of the State Employer. This relationship, though not required, has taken many years for both parties to establish credibility and trust. We are invited to become involved in the initial discussions of the health plan design as it is being developed with the vendor (we were extensively involved in the Medicare Advantage Plan). Our reactions to potential components of the plan, alternative plan designs, etc. and implementation strategies are offered and thoroughly discussed. We are definitely an integral part before, during and after the implementation of any plan over several months period of time. Sometimes our suggestions are accepted while at other times are not. The important thing is that we thoroughly understand the plan and how it was developed which enables us to better explain any plan changes to our membership and other retirees. Further, SERA has routinely been invited to participate on the Joint Evaluation Committees that select the vendors that administer the various benefit plans. SERA has been involved in various changes involving our health plan (Aetna program moved to BC/BS, introduction of the current PPO program, the Medicare Advantage plan and various changes in the prescription drug plans). We believe that it is through our ability to fully explain the plan and why and how it was developed that is the value Civil Service and retirees obtain from our involvement.

The position of our Association on HB 4072 will probably be characterized as being afraid of change (as we were told about HB 5545 last year). This is not the case. We are opposed to specific change when there appears to be an experiential basis for fearing such change. This is the case in moving the administration of state retirees' Health benefits to the Office of Retirement Systems. Our experience with and knowledge of the operations of ORS do cause us some concern. This concern is based on the experiences of our members in dealing with the Office of Retirement Systems even on a limited basis. Our members deal with the ORS if they have issues regarding deferred compensation; a challenge to a board decision regarding disability retirements or the application of the Retirement Act; seeking to obtain forms such as beneficiary designations or forms to request payment of death benefits, or obtaining answers on routine questions. Ready access to ORS staff by telephone for routine questions is a problem. It has been reported to us a number of times that a caller waits an inordinate amount of time to speak to ORS staff. Also, we have waited since March of 2006 for retirees to have the ability to participate in a voluntary benefits program available to active employees. Our participation has been held up because of the ORS's inability to handle automated deductions from pension payments for retirees participating in the program. I have been informed recently that ORS is now prepared to handle pension deductions for the VBS program. The VBS program that is geared toward retirees did not seem to be a priority for ORS. The historical track record of the Office of Retirement Services is not very comforting to state retirees. ORS is not looked upon as a "user (retiree) friendly agency. Let me hasten to state that the Office of Retirement Systems does an excellent job of making timely and accurate pension payments and keeping retirees informed of variances in payment dates and in distributing year-end income statements.

- Presumably adding the 46,000 state retirees to the roughly 185,000 retired school employees would be creating a larger pool to enable the vendors of health plans to give greater cost reductions as a result. If

Blue Cross/Blue Shield administers both plans now why aren't the cost-savings being realized? For the benefit of this committee I would like to inform you that the next contract for prescription drug benefits will be a "blended" proposal to select one successful bidder to administer both active/retired state employees and the MPSERS drug plan. The prescription drug plan designs are substantially different. When these bids are evaluated a SERA representative will be on the Joint Evaluation Committee as has been the practice for the past several years. I don't believe that a retired school person has been on the Evaluation Committee for MPSERS health benefits in the past.

- HB 4072 would cause the continuity in health care plans to be lost when a state employee retires. Currently, there is no change in providers/plan design or other significant changes in health care coverage when a state employee retires. This is in sharp contrast to the lack of continuity in coverage when a school employee retires and his/her health plan is administered by the Office of Retirement Services.
- It is our belief that if the Governor was supportive of this move to ORS she could achieve the intent of HB 4072 via an Executive Order.
- We believe that there are no savings involved in this move. There has been no legislative analysis of HB 4072, but the analysis of the previous HB 5545 (Attachment 2) showed no fiscal impact. If the purpose of the move isn't to save money, what exactly is the purpose of moving benefits to ORS?
- Retiree benefits are patterned after the active employee's negotiated benefits and approved by the Civil Service Commission and the Department of Management and Budget. How does adding a third entity (ORS/Retirement Board) improve the process? To further confuse the issue HB 4072 also appears to give ORS unilateral authority to administer and select the health plan. The current system of determining retiree benefits has worked well for over 30 years. What has happened that makes this change necessary?
- The proposed move would eliminate direct access of SERA leadership to senior management officials of Civil Service and the Office of the State Employer which has proven mutually beneficial to all concerned.

I sincerely hope this presentation has positively contributed to the dialogue regarding HB 4072 and SERA's reasons for opposition to this legislation. We look forward to the opportunity to make future input to the Committee.

I will be more than happy to answer any questions the Committee may have.

JENNIFER M. GRANHOLM  
GOVERNOR



STATE OF MICHIGAN  
CIVIL SERVICE COMMISSION

JANET MCCLELLAND  
ACTING STATE PERSONNEL DIRECTOR

COMMISSIONERS  
BRYAN J. WALDMAN,  
CHAIRPERSON  
ANDREW P. ABOOD  
SHERRY L. McMILLAN  
THOMAS M. WARDROP

August 20, 2008

Ms. Sharon M. Bommarito  
Director  
Office of the State Employer  
P.O. Box 30026  
Lansing, Michigan 48909

Dear Ms. Bommarito:

The acting state personnel director has received and considered the attached interagency memorandum of understanding regarding retiree health benefits. With the consent of the Chair of the Civil Service Commission, the acting director has granted interim approval of the memorandum. The enclosed document serves as official notice of the interim approval.

The acting director will place this interim approval on the agenda for final consideration by the commission at its next meeting. If you have any further questions, please feel free to contact me at (517) 373-2611.

Sincerely,

A handwritten signature in cursive script, appearing to read "John Gnodtke".

John Gnodtke

Attachments

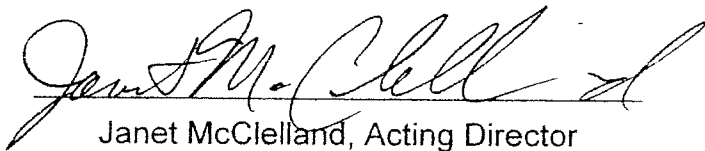
cc: Janet M. McClelland, CSC  
Lisa Webb Sharpe, DMB  
Phil Stoddard, ORS  
Susan Kant, EBD  
Bob Kopasz, MI-SERA

Michigan Civil Service Commission

**INTERIM APPROVAL OF INTERAGENCY  
MEMORANDUM OF UNDERSTANDING**

RETIREE HEALTH BENEFITS

As provided in Section 2.7 of the bylaws of the Civil Service Commission and Civil Service Commission Rule 1-1.4, and with the consent of the chair of the Civil Service Commission, the acting director approves the attached interagency memorandum of understanding on an interim basis. The memorandum of understanding will be placed on the agenda of the next Commission meeting for final action. If a majority of a quorum of the Civil Service Commission does not approve the memorandum of understanding before the adjournment of the Commission's next meeting, this interim approval expires.

  
Janet McClelland, Acting Director

8/20/08  
Date

## INTERAGENCY MEMORANDUM OF UNDERSTANDING Retiree Health Benefits

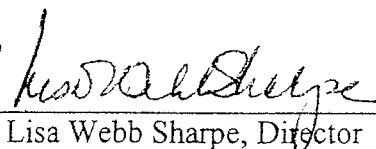
This is a memorandum of understanding (MOU) between the **Michigan Civil Service Commission** and the **Michigan Department of Management and Budget**.

1. Upon approval by the commission, this MOU constitutes a joint agreement regarding retiree health benefits as provided in the State Employees' Retirement Act [MCL 38.20d], State Police Retirement Act [MCL 38.1642], and Judges' Retirement Act [MCL 38.2509]. Benefit changes identified below do not apply to persons retiring from the State Police enlisted unit on or after October 1, 1987.
2. Effective October 1, 2008, the following changes will be made to the State Health Plan PPO and the Medicare Plus Blue Group drug coverage:
  - For retirees who retired prior to January 1, 1987 and their dependents, co-pays for retail drugs are \$7, \$15, and \$30 for generic, preferred, and non-preferred drugs, respectively. Co-pays for mail order drugs for a three-month supply are \$14, \$30, and \$60 for generic, preferred brand, and non-preferred brand name drugs, respectively. The programs of generics preferred and step therapy will be added to the prescription drug benefit.
  - For retirees who retired in 1987 or after and their dependents, co-pays for retail drugs are \$10, \$20, and \$40 for generic, preferred, and non-preferred drugs, respectively. Co-pays for mail order drugs for a three-month supply are \$20, \$40, and \$80 for generic, preferred brand, and non-preferred brand name drugs, respectively. The programs of generics preferred and step therapy will be added to the prescription drug benefit.
3. Effective January 1, 2009, the following changes will be made to the State Health Plan PPO and the Medicare Plus Blue Group for all retirees and dependents:
  - In-network office visits under the State Health Plan PPO and office visits under the Medicare Plus Blue Group such as physician office, office consultation, chiropractic spinal manipulation, urgent care, and hearing care are subject to a \$15 co-pay.
  - A \$50 emergency room co-pay will be charged when not admitted to the hospital.
  - For the State Health Plan PPO, the in-network deductibles will be \$300 and \$600 for individuals and families, respectively. The out-of-network deductibles will change to \$600 and \$1200 for individuals and families, respectively.
  - For the Medicare Plus Blue Group, the deductible will change to \$300 per individual.



Janet McClelland

Acting State Personnel Director



Lisa Webb Sharpe, Director

Department of Management and Budget



**House  
Legislative  
Analysis  
Section**

House Office Building, 9 South  
Lansing, Michigan 48909  
Phone: 517/373-6466

Attachment 2

## **RETIREE HEALTH CARE**

### **House Bill 5545**

**Sponsor: Rep. Mark Meadows**

### **House Bill 5546**

**Sponsor: Rep. Brian Calley**

**Committee: Retiree Health Care Reforms**

**Complete to 12-12-07**

## **A SUMMARY OF HOUSE BILL 5545 AS INTRODUCED 12-6-07**

The bills would specify that, as of July 1, 2008, the Office of Retirement Services in the Department of Management and Budget would be responsible for selecting, authorizing, and administering group retiree health insurance plans (hospitalization and medical coverage) and dental and vision plans.

House Bill 5545 would amend the State Employees' Retirement Act (MCL 38.20d). House Bill 5546 would amend the Judges Retirement Act (MCL 38.2205).

Administering the health benefits program for the Judges Retirement System and the State Employees Retirement System has been a responsibility of the Department of Civil Service. (Executive Order 2007-30 abolished the Department of Civil Service; transferred its authority, powers, duties, and functions to the Civil Service Commission, which became an autonomous entity within DMB; and the duties and responsibilities of the director of the department were transferred to the State Personnel Director.)

### **FISCAL IMPACT:**

The bills do not appear to have fiscal impact.

Legislative Analyst: Chris Couch

Fiscal Analyst: Al Valenzio

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.